

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 1999

|  | Note | 1999<br>RM'000              | 1998<br>RM'000              |
|--|------|-----------------------------|-----------------------------|
| <b>ASSETS</b>  |      |                             |                             |
| Cash and short-term funds  | 3    | 1,825,680                   | 1,438,687                   |
| Deposits and placements with financial institutions                  | 4    | 1,151,295                   | 75,000                      |
| Dealing securities   | 5    | 57,448                      | -                           |
| Investment securities  | 6    | 869,109                     | 1,066,800                   |
| Loans, advances and financing  | 7    | 5,577,640                   | 5,675,573                   |
| Other assets   | 8    | 79,868                      | 88,457                      |
| Statutory deposit with Bank Negara Malaysia                          | 10   | 231,761                     | 659,515                     |
| Investment in subsidiary companies                                   | 11   | 1,248                       | 1,248                       |
| Fixed assets   | 12   | 62,362                      | 66,089                      |
| <b>TOTAL ASSETS</b>  |      | -----<br>9,856,411<br>===== | -----<br>9,071,369<br>===== |
| <b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>                           |      |                             |                             |
| Deposits from customers  | 13   | 8,791,146                   | 8,061,532                   |
| Deposits and placements of banks<br>and other financial institutions | 14   | 185,000                     | 225,115                     |
| Other liabilities  | 15   | 354,315                     | 274,643                     |
| <b>TOTAL LIABILITIES</b>   |      | -----<br>9,330,461<br>----- | -----<br>8,561,290<br>----- |
| Share capital  | 16   | 263,000                     | 263,000                     |
| Reserves   | 17   | 262,950                     | 247,079                     |
| <b>SHAREHOLDERS' FUNDS</b>   |      | -----<br>525,950<br>-----   | -----<br>510,079<br>-----   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>                     |      | -----<br>9,856,411<br>===== | -----<br>9,071,369<br>===== |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                 | 28   | -----<br>1,664,333<br>===== | -----<br>1,345,450<br>===== |

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

PROFIT AND LOSS ACCOUNT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 1999

|   | Note   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|--------|----------------|----------------|
| Interest income                               | 18     | 861,652        | 910,082        |
| Interest expense                              | 19     | (656,011)      | (699,618)      |
|   |        | -----          | -----          |
| Net interest income                           |        | 205,641        | 210,464        |
| SPI income                                    | 34(10) | 7,826          | 6,471          |
|   |        | -----          | -----          |
|   |        | 213,467        | 216,935        |
| Loan and financing loss and provision         | 20     | (134,896)      | (99,275)       |
|   |        | -----          | -----          |
|   |        | 78,571         | 117,660        |
| Non-interest income                           | 21     | 34,594         | 9,296          |
|   |        | -----          | -----          |
| Net income                                    |        | 113,165        | 126,956        |
| Overhead expenses                             | 22     | (91,332)       | (110,740)      |
| Provision for damages                         | 15(i)  | (1,200)        | -              |
|   |        | -----          | -----          |
| Profit before taxation and zakat              |        | 20,633         | 16,216         |
| Taxation                                      | 25     | -              | (12,325)       |
| Zakat   |        | (28)           | (13)           |
|   |        | -----          | -----          |
| Profit after taxation and zakat               |        | 20,605         | 3,878          |
| Transfer to statutory reserve                 | 17     | (5,151)        | (970)          |
|   |        | -----          | -----          |
| Profit after transfer to statutory reserve    |        | 15,454         | 2,908          |
| Retained profits brought forward              |        | 101,436        | 98,528         |
|   |        | -----          | -----          |
| Profits available for distribution            |        | 116,890        | 101,436        |
| Proposed dividend - 2.5% less tax (1998: Nil) |        | (4,734)        | -              |
|   |        | -----          | -----          |
| Retained profits carried forward              |        | 112,156        | 101,436        |
|   |        | =====          | =====          |
| Earnings per share (sen)                      | 27     | 8              | 2              |
|   |        | =====          | =====          |

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

CASH FLOW STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 1999

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                                   |                |                |
| Net profit before taxation and zakat   | 20,633         | 16,216         |
| Adjustments for:-  |                |                |
| Depreciation of fixed assets   | 8,814          | 9,183          |
| Gain on disposal of fixed assets   | (30)           | (54)           |
| Fixed assets written off   | 15             | 18             |
| Provision for bad and doubtful debts   | 134,896        | 99,275         |
| Provision for interest-in-suspense   | 97,622         | 50,880         |
| Provision for staff retirement benefits                                      | 751            | 751            |
| Provision for damages  | 1,200          | -              |
| Investment income  |                |                |
| - interest income from dealing securities                                    | (9,827)        | -              |
| - interest income from investment securities                                 | (56,864)       | (65,838)       |
| - dividend income  | (337)          | (399)          |
| - gain on sale of investment securities                                      | (27,297)       | (966)          |
| Provision for diminution in value of investment securities                   | (622)          | 3,118          |
|  | -----          | -----          |
| Operating profit before working capital changes                              | 168,954        | 112,184        |
| (Increase)/Decrease in deposits and placements with financial institutions   | (1,076,295)    | 494,600        |
| Increase in loans, advances and financing                                    | (134,586)      | (363,807)      |
| Decrease in other assets   | 8,590          | 1,952          |
| Decrease in statutory deposit with Bank Negara Malaysia                      | 427,754        | 206,988        |
| Increase in deposits from customers  | 729,614        | 1,403,051      |
| Decrease in deposits and placement of banks and other financial institutions | (40,115)       | (339,275)      |
| Increase/(Decrease) in other liabilities                                     | 127,922        | (185,254)      |
|  | -----          | -----          |
| Cash generated from operations   | 211,838        | 1,330,439      |
| Payment of staff retirement benefits   | (604)          | (718)          |
| Income taxes paid  | (54,359)       | (32,642)       |
|  | -----          | -----          |
| Net cash generated from operating activities                                 | 156,875        | 1,297,079      |
|  | -----          | -----          |

## CASH FLOWS FROM INVESTING ACTIVITIES

|  |         |           |
|--|---------|-----------|
| Disposal/(Purchase) of investment securities (net)     | 168,162 | (347,352) |
| Purchase of fixed assets                               | (5,118) | (12,999)  |
| Proceeds from sale of fixed assets                     | 46      | 453       |
| Dividend received                                      | 337     | 399       |
| Interest received from dealing securities              | 9,827   | -         |
| Interest received from investment securities           | 56,864  | 65,838    |
|  | -----   | -----     |
| Net cash generated from/(used in) investing activities | 230,118 | (293,661) |
|  | -----   | -----     |

## CASH FLOWS FROM FINANCING ACTIVITIES

|  |       |          |
|--|-------|----------|
| Proceeds from Issuance of share capital      | -     | 40,000   |
| Dividend paid                                | -     | (20,293) |
|  | ----- | -----    |
| Net cash generated from financing activities | -     | 19,707   |
|  | ----- | -----    |

Net increase in cash and cash equivalents 386,993 1,023,125

## CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

1,438,687 415,562

## CASH AND CASH EQUIVALENTS AT END OF YEAR

1,825,680 1,438,687

## ANALYSIS OF CASH AND CASH EQUIVALENTS:-

|                           |           |           |
|---------------------------|-----------|-----------|
| Cash and short-term funds | 1,825,680 | 1,438,687 |
|                           | =====     | =====     |

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The accounts of the Company has been prepared in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable approved accounting standards in Malaysia. The accounts incorporate those activities relating to Islamic Banking which have been undertaken by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The accounts of the Company has been prepared under the historical cost convention.

(b) Recognition of Interest Income

Interest income is recognised on an accrual basis. Interest income on hire purchase, block discounting and leasing transactions is recognised on the sum-of-digits method. Interest income on other loans is recognised by reference to rest periods which are either daily or monthly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for loans, hire purchase accounts, block discounting, leasing and advances. The policy on suspension of interest is in conformity with Bank Negara Malaysia's "Guidelines on Interest Suspension, BNM/GP3"(revised).

Interest income on balances and deposits with financial institutions, short term investments and Malaysian Government securities is recognised on an accrual basis.

(c) Recognition of Fees and Other Income

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees are recognised as income based on time apportionment.

Dividends from dealing and investment securities are recognised when received.

Dividend income from Malaysian Government investment certificates invested for the purpose of Islamic banking is recognised on a basis consistent with the principles of Syariah.

(d) Dealers' Commission

Dealers' commission are amortised over the period of the hire purchase loans using the sum-of-digits method.

(e) Provision for Bad and Doubtful Debts and Financing

Specific provisions are made for doubtful debts and financing which have been individually reviewed and specifically identified as bad or doubtful.

A general provision based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

An uncollectable loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(f) Repurchase Agreements

Securities purchased under resale agreements are securities which the Company had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Company has sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities are reflected as a liability on the balance sheet.

(g) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

(h) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act 1989, and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment issues, Cagamas bonds, other Government securities and Private Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount, where applicable, to maturity date. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

(i) Investment in Subsidiary Companies

A subsidiary company is a company in which the Company controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost, and written down when the directors consider that there is a permanent diminution in the value of such investments.

(j) Depreciation of fixed assets

Freehold land is not depreciated. Depreciation of other fixed assets is calculated to write off the cost of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:-

|                                 |   |
|---------------------------------|---|
| Buildings on freehold land      | 2%  |
| Long term leasehold land        |   |
| - less than 50 years            | Over the lease period   |
| Short term leasehold land       |   |
| - more than 50 years            | Over the lease period   |
| Leasehold buildings             | Over the remaining period<br>of the lease or 2%<br>whichever is shorter |
| Office equipment and furniture  | 10%   |
| Computer equipment and software | 20%   |
| Office renovation               | 10%   |
| Motor vehicles                  | 20%   |

(k) Deferred Taxation

Provision is made by using the "liability" method for deferred taxation in respect of all material timing differences between accounting income and taxable income except where it is reasonably expected that the tax effects of such deferrals will continue in the foreseeable future. Timing differences that give rise to deferred tax benefits are not taken into account.

(l) Staff Retirement Benefits

The Company operates a defined contribution scheme for eligible executives which is administered by the Hong Leong Group Executive Retirement Benefit Fund. The benefits payable on retirement are based on a fixed percentage contribution of the salary of the executive as accrued monthly in the executive's nominal account.

This is a new scheme that became effective on 1 January 1999, replacing the old scheme based on defined benefits. The benefit accrued to eligible executives up to 31 December 1998 based on the old scheme was credited to the executives' account in the new scheme.

The cost and liability in respect of the old defined benefits scheme was determined by an actuarial valuation based on the accrued benefits valuation method conducted in June 1998. The cost and liability in respect of the new defined contribution scheme will be determined by an actuarial valuation to be conducted once in every three years by a qualified actuary.

The change in scheme is not expected to have a material effect on the financial result of the Company

(m) Foreclosed properties

Foreclosed properties are stated at lower of cost and net realisable value.

(n) Interest rate swaps and futures

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate futures that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps and futures that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in net result from dealing securities.

(o) Amounts recoverable from Danaharta

This relates to the loans sold to Danaharta where the total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Company's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as "Amounts recoverable from Danaharta" within the "Other Assets" component of the balance sheet. Provisions against these amounts are made to reflect the Directors' assessment of the realisable value of the final consideration as at the balance sheet date.

3. CASH AND SHORT-TERM FUNDS

|   | 1999<br>RM'000   | 1998<br>RM'000   |
|---|------------------|------------------|
| Cash and balances with banks<br>and other financial institutions  | 67,159           | 70,691           |
| Money at call and deposit placements<br>maturing within one month | 1,758,521        | 1,367,996        |
|   | <u>1,825,680</u> | <u>1,438,687</u> |
|   | =====            | =====            |

4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

|                              | 1999<br>RM'000   | 1998<br>RM'000 |
|------------------------------|------------------|----------------|
| Licensed banks               | 193,000          | -              |
| Licensed finance companies   | 419,695          | 75,000         |
| Other financial institutions | 538,600          | -              |
|                              | <u>1,151,295</u> | <u>75,000</u>  |
|                              | =====            | =====          |

5. DEALING SECURITIES

|                                     | 1999<br>RM'000 | 1998<br>RM'000 |
|-------------------------------------|----------------|----------------|
| Money market instruments:-          |                |                |
| Malaysian Government securities     | <u>57,448</u>  | <u>-</u>       |
|                                     | =====          | =====          |
| Market value of quoted securities:- |                |                |
| Malaysian Government securities     | <u>60,890</u>  | <u>-</u>       |
|                                     | =====          | =====          |

6. INVESTMENT SECURITIES

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Money market instruments:-                          |                |                |
| Malaysian Government securities                     | 56,318         | 178,411        |
| Malaysian Government investment certificates        | 13,204         | 60             |
| Cagamas bonds                                       | 10,020         | 200,910        |
| Negotiable instruments of deposit                   | 60,000         | 200,000        |
| Bankers' acceptances                                | 292,502        | 338,987        |
| Private debt securities (unquoted)                  | 399,363        | 142,775        |
| Private debt securities (quoted)                    | 3,474          | 3,474          |
| Commercial papers                                   | 19,000         | -              |
|   | -----          | -----          |
|   | 853,881        | 1,064,617      |
| Shares quoted in Malaysia                           | 329            | 1,243          |
| Unquoted securities:-                               |                |                |
| Shares  | 8,939          | 7,106          |
| Debentures  | 162            | 162            |
|   | -----          | -----          |
|   | 863,311        | 1,073,128      |
| Amortisation of premium less accretion of discounts | 8,294          | (3,210)        |
| Provision for diminution in value of                |                |                |
| - Quoted shares                                     | (174)          | (796)          |
| - Unquoted shares                                   | (2,322)        | (2,322)        |
|   | -----          | -----          |
|   | 869,109        | 1,066,800      |
|   | =====          | =====          |

(a) Market value of quoted securities:-

|                                 | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------------|----------------|----------------|
| Malaysian Government securities | 58,516         | 168,500        |
| Cagamas bonds                   | 10,202         | 192,873        |
| Private debt securities         | 4,375          | 3,793          |
| Shares quoted in Malaysia       | 155            | 330            |
|                                 | -----          | -----          |
|                                 | 73,248         | 365,496        |
|                                 | =====          | =====          |

- (b) The maturity structure of money market instruments held for investment are as follows:-

|                           | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------|----------------|----------------|
| Maturing within one year  | 391,950        | 722,249        |
| One year to three years   | 82,538         | 141,013        |
| Three years to five years | 280,994        | 55,924         |
| Over five years           | 98,399         | 145,431        |
|                           | -----          | -----          |
|                           | 853,881        | 1,064,617      |
|                           | =====          | =====          |

7. LOANS, ADVANCES AND FINANCING

|  | 1999<br>RM'000         | 1998<br>RM'000         |
|--|------------------------|------------------------|
| Revolving credit facilities                        | 592,823                | 658,844                |
| Housing loans                                      | 1,086,330              | 993,617                |
| Hire purchase                                      | 3,997,581              | 4,197,523              |
| Lease receivables                                  | 184,432                | 26,970                 |
| Factoring  | 37,505                 | 28,201                 |
| Block discounting                                  | 44,890                 | 56,741                 |
| Staff loans  | 38,253                 | 30,535                 |
| Other loans  | 660,097                | 659,749                |
|  | -----                  | -----                  |
| Unearned interest and income                       | 6,641,911<br>(664,970) | 6,652,180<br>(702,701) |
|  | -----                  | -----                  |
| Gross loans, advances and financing                | 5,976,941              | 5,949,479              |
| Provision for bad and doubtful debts and financing |                        |                        |
| - specific   | (154,951)              | (110,106)              |
| - general  | (103,932)              | (92,998)               |
| Interest-in-suspense/Income-in-suspense            | (140,418)              | (70,802)               |
|  | -----                  | -----                  |
| Net loans, advances and financing                  | 5,577,640              | 5,675,573              |
|  | =====                  | =====                  |

The maturity structure of loans, advances and financing are as follows:-

|                           | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------|----------------|----------------|
| Maturity within one year  | 1,154,938      | 317,327        |
| One year to three years   | 1,977,953      | 1,738,168      |
| Three years to five years | 1,674,345      | 2,256,716      |
| Over five years           | 1,169,705      | 1,637,268      |
|                           | -----          | -----          |
|                           | 5,976,941      | 5,949,479      |
|                           | =====          | =====          |

Loans, advances and financing according to economic sector are as follows:-

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Agriculture                              | 24,684         | 20,275         |
| Mining and quarrying                     | 37,947         | 42,258         |
| Manufacturing                            | 255,706        | 371,556        |
| Electricity, gas and water               | 19,652         | 20,005         |
| Construction                             | 685,519        | 710,445        |
| Real estate                              | 51,213         | 63,457         |
| Purchase of landed property (of which    |                |                |
| (i) Residential                          | 777,475        | 700,914        |
| (ii) Non-residential)                    | 192,123        | 173,182        |
| General commerce                         | 192,994        | 256,900        |
| Transport, storage and communication     | 112,431        | 121,551        |
| Finance, insurance and business services | 92,882         | 132,258        |
| Purchase of securities                   | 115,238        | 206,678        |
| Purchase of transport vehicles           | 2,420,409      | 2,631,934      |
| Consumption credit                       | 1,951          | 13,867         |
| Others                                   | 996,717        | 484,199        |
|  | -----          | -----          |
|  | 5,976,941      | 5,949,479      |
|  | =====          | =====          |

Movements in the non-performing loans and financing (including interest and income receivable) are as follows:-

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Balance as at 1 July   | 850,183        | 141,878        |
| Transfer from Hong Leong Leasing Sdn Bhd   | 52,402         | -              |
| Transfer from HL Leasing Sdn Bhd   | 35,979         | -              |
| Non-performing during the year (gross)   | 493,110        | 772,962        |
| Amount sold to Danaharta   | (194,967)      | -              |
| Recoveries   | (54,009)       | (20,025)       |
| Reclassified as performing   | (129,608)      | (23,592)       |
| Amount written off   | (24,000)       | (21,040)       |
|  | -----          | -----          |
| Balance as at 30 June  | 1,029,090      | 850,183        |
|  | =====          | =====          |
| As % gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense | 12.1%          | 10.7%          |
|  | =====          | =====          |

Movements in the provision for bad and doubtful debts and financing and interest-in-suspense/income-in-suspense accounts are as follows:-

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| <u>General Provision</u>  |                |                |
| Balance as at 1 July  | 92,998         | 71,043         |
| Provision made during the year  | 9,100          | 21,955         |
| Transfer from HL Leasing Sdn Bhd  | 1,834          | -              |
|   | -----          | -----          |
| Balance as at 30 June   | 103,932        | 92,998         |
|   | =====          | =====          |
| As % of gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense | 1.7%           | 1.5%           |
|   | =====          | =====          |

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| <u>Specific Provision</u>                    |                |                |
| Balance as at 1 July                         | 110,106        | 49,120         |
| Transfer from Hong Leong Leasing Sdn Bhd     | 9,688          | -              |
| Transfer from HL Leasing Sdn Bhd             | 9,174          | -              |
| Provision made during the year               | 139,612        | 87,086         |
| Amount sold to Danaharta                     | (84,223)       | -              |
| Amount written back in respect of recoveries | (13,863)       | (9,668)        |
| Amount written off                           | (15,543)       | (15,592)       |
| Other adjustments                            | -              | (840)          |
|  | -----          | -----          |
| Balance as at 30 June                        | 154,951        | 110,106        |
|  | =====          | =====          |

|  |          |         |
|--|----------|---------|
| <u>Interest-in-suspense/Income-in-suspense</u> |          |         |
| Balance as at 1 July                           | 70,802   | 25,370  |
| Transfer from Hong Leong Leasing Sdn Bhd       | 10,065   | -       |
| Transfer from HL Leasing Sdn Bhd               | 3,359    | -       |
| Provision made during the year                 | 113,731  | 55,148  |
| Amount sold to Danaharta                       | (32,584) | -       |
| Amount written back in respect of recoveries   | (16,109) | (4,268) |
| Amount written off                             | (8,456)  | (5,448) |
| Amount transferred to deferred assets          | (390)    | -       |
|  | -----    | -----   |
| Balance as at 30 June                          | 140,418  | 70,802  |
|  | =====    | =====   |

8. OTHER ASSETS

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Other debtors, deposits and prepayments | 52,186         | 49,262         |
| Deferred asset - Ex-Visia (Note 9)      | 26,668         | 39,195         |
| Amount recoverable from Danaharta       | 1,014          | -              |
|   | -----          | -----          |
|   | 79,868         | 88,457         |
|   | =====          | =====          |

Amount recoverable from Danaharta

|                                |          |       |
|--------------------------------|----------|-------|
| Balance as at 1 July           | -        | -     |
| Amount arising during the year | 85,491   | -     |
| Provision made during the year | (84,477) | -     |
|                                | -----    | ----- |
| Balance as at 30 June          | 1,014    | -     |
|                                | =====    | ===== |

## 9. DEFERRED ASSET

The Company participated in a scheme approved by the Minister of Finance and sanctioned by the High Court of Malaya whereby the assets and liabilities of Visia Finance Berhad ("Visia"), a licensed finance company incorporated in Malaysia, were taken over by the Company with effect from 1 January 1994. The takeover of the assets and liabilities of Visia is not expected to have any adverse effect on the results and financial position of the Company as it is financed by a soft loan from Bank Negara Malaysia ("BNM").

The deficiency representing the excess of liabilities over the assets taken over from Visia pursuant to the abovementioned scheme, is shown as a deferred asset and, is to be reduced progressively by the net income derived from the utilisation of the soft loan placed by BNM and the net recoveries of non-performing loans of Visia.

## 10. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(C) of the Central Bank of Malaysia Ordinance 1958, the amount of which is determined as set percentages of total eligible liabilities.

## 11. INVESTMENT IN SUBSIDIARY COMPANIES

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Unquoted shares at cost                 | 1,568          | 1,568          |
| Less: Provision for diminution in value | (320)          | (320)          |
|   | -----          | -----          |
|   | 1,248          | 1,248          |
|   | =====          | =====          |

The subsidiaries of the Company, which are all incorporated in Malaysia, are as follows:-

| <u>Name</u>            | <u>Percentage of equity held</u> |      | <u>Principal activities</u>                   |
|------------------------|----------------------------------|------|---|
|                        | 1999                             | 1998 |   |
|                        | %                                | %    |   |
| Pelita Terang Sdn Bhd  | 100                              | 100  | Property development                          |
| HLF Credit (Perak) Bhd | 100                              | 100  | Property investment holding and money lending |
| Visia Nominees Sdn Bhd | 100                              | 100  | Agent and nominee services                    |

The accounts of the subsidiaries are not consolidated as Hong Leong Finance Berhad, being a wholly-owned subsidiary of Hong Leong Bank Berhad, is exempted from presenting Group accounts under Paragraph 5 (4)(a) of the Ninth Schedule of the Companies Act, 1965.

12. FIXED ASSETS

|   | *Land &<br>Buildings<br>RM'000 | Office<br>Equipment<br>& Furniture<br>RM'000 | Computer<br>Equipment<br>& Softwares<br>RM'000 | Renovation<br>RM'000 | Motor<br>Vehicles<br>RM'000 | Total<br>RM'000 |
|---|--------------------------------|--|--|----------------------|-----------------------------|-----------------|
| <b>Cost</b>                                   |                                |  |  |                      |                             |                 |
| At 1-7-1998                                   | 33,294                         | 16,246                                       | 33,263   | 22,715               | 1,526                       | 107,044         |
| Additions                                     | 2,060                          | 261  | 1,882  | 785                  | 130                         | 5,118           |
| Disposals                                     | -                              | (284)  | (458)  | (3)                  | (77)                        | (822)           |
| Written off                                   | -                              | (316)  | (915)  | (131)                | (2)                         | (1,364)         |
| Reclassification                              | (23)                           | -  | -  | 23                   | -                           | -               |
|   | -----                          | -----  | -----  | -----                | -----                       | -----           |
| At 30-6-1999                                  | <u>35,331</u>                  | <u>15,907</u>                                | <u>33,772</u>                                  | <u>23,389</u>        | <u>1,577</u>                | <u>109,976</u>  |
| <b>Accumulated Depreciation</b>               |                                |  |  |                      |                             |                 |
| At 1-7-1998                                   | 2,861                          | 8,426  | 20,258   | 8,529                | 881                         | 40,955          |
| Charge for<br>the year                        | 435                            | 1,177  | 4,903  | 2,093                | 206                         | 8,814           |
| Disposals                                     | -                              | (271)  | (458)  | -                    | (77)                        | (806)           |
| Written off                                   | -                              | (304)  | (915)  | (128)                | (2)                         | (1,349)         |
| Reclassification                              | (1)                            | (17)   | 16   | 2                    | -                           | -               |
|   | -----                          | -----  | -----  | -----                | -----                       | -----           |
| At 30-6-1999                                  | <u>3,295</u>                   | <u>9,011</u>                                 | <u>23,804</u>                                  | <u>10,496</u>        | <u>1,008</u>                | <u>47,614</u>   |
| <b>Net Book Value</b>                         |                                |  |  |                      |                             |                 |
| At 30-6-1999                                  | <u>32,036</u>                  | <u>6,896</u>                                 | <u>9,968</u>                                   | <u>12,893</u>        | <u>569</u>                  | <u>62,362</u>   |
| <b>Net Book Value</b>                         |                                |  |  |                      |                             |                 |
| At 30-6-1998                                  | <u>30,433</u>                  | <u>7,820</u>                                 | <u>13,005</u>                                  | <u>14,186</u>        | <u>645</u>                  | <u>66,089</u>   |
| <b>Depreciation charge for the year ended</b> |                                |  |  |                      |                             |                 |
| <b>30-6-1998</b>                              | <u>386</u>                     | <u>1,136</u>                                 | <u>5,462</u>                                   | <u>2,006</u>         | <u>193</u>                  | <u>9,183</u>    |



13. DEPOSITS FROM CUSTOMERS

Types

|                                    | 1999<br>RM'000 | 1998<br>RM'000 |
|------------------------------------|----------------|----------------|
| Fixed/Investment deposits          | 8,055,140      | 7,644,373      |
| Negotiable instruments of deposits | 60,000         | 40,000         |
|                                    | -----          | -----          |
| Savings deposits                   | 8,115,140      | 7,684,373      |
|                                    | 676,006        | 377,159        |
|                                    | -----          | -----          |
|                                    | 8,791,146      | 8,061,532      |
|                                    | =====          | =====          |

(a) The maturity structure of fixed and investment deposits and negotiable instruments of deposits are as follows:-

|                           | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------|----------------|----------------|
| Due within six months     | 6,937,727      | 6,425,178      |
| Six months to one year    | 1,027,348      | 918,142        |
| One year to three years   | 136,165        | 329,719        |
| Three years to five years | 13,900         | 11,334         |
|                           | -----          | -----          |
|                           | 8,115,140      | 7,684,373      |
|                           | =====          | =====          |

(b) The deposits are sourced from the following customers:-

|                      | 1999<br>RM'000 | 1998<br>RM'000 |
|----------------------|----------------|----------------|
| Business enterprises | 514,274        | 687,443        |
| Individuals          | 6,918,342      | 6,385,972      |
| Others               | 1,358,530      | 988,117        |
|                      | -----          | -----          |
|                      | 8,791,146      | 8,061,532      |
|                      | =====          | =====          |

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

|                              | 1999<br>RM'000 | 1998<br>RM'000 |
|------------------------------|----------------|----------------|
| Licensed banks               | 40,000         | 80,115         |
| Other financial institutions | 145,000        | 145,000        |
|                              | -----          | -----          |
|                              | 185,000        | 225,115        |
|                              | =====          | =====          |

15. OTHER LIABILITIES

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Agents' rebates                         | 248            | 318            |
| Proposed dividend                       | 4,734          | -              |
| Taxation                                | 26,444         | 80,803         |
| Zakat (Note 34(8))                      | 28             | 13             |
| Provision for staff retirement benefits | 5,581          | 5,434          |
| Provision for damages                   | 1,200          | -              |
| Other liabilities                       | 316,080        | 188,075        |
|   | -----          | -----          |
|   | 354,315        | 274,643        |
|   | =====          | =====          |

(i) Provision for Damages

Pursuant to the judgment of the Federal Court of Kuala Lumpur with regard to litigation taken up by a borrower against the Company jointly with the subsidiary, Pelita Terang Sdn Bhd, the Company is liable to pay damages and costs to the borrower for breach of collateral warranty. An order for the award of damages is subject to continue proceedings and the Company has made provision of RM1,200,000 against this liability.

The provision will be reviewed from year to year as the litigation progresses.

|                                       |         |         |
|---------------------------------------|---------|---------|
| 16. SHARE CAPITAL                     |         |         |
|                                       | 1999    | 1998    |
|                                       | RM'000  | RM'000  |
| Ordinary shares of RM1 each           |         |         |
| Authorised capital                    | 600,000 | 600,000 |
|                                       | =====   | =====   |
| Issued and fully paid capital:-       |         |         |
| Balance as at 1 July                  | 263,000 | 223,000 |
| Issued for cash at par                | -       | 40,000  |
|                                       | -----   | -----   |
| Balance as at 30 June                 | 263,000 | 263,000 |
|                                       | =====   | =====   |
| 17. RESERVES                          |         |         |
|                                       | 1999    | 1998    |
|                                       | RM'000  | RM'000  |
| Statutory reserve                     |         |         |
| Balance as at 1 July                  | 145,643 | 144,673 |
| Transfer from profit and loss account | 5,151   | 970     |
|                                       | -----   | -----   |
| Balance as at 30 June                 | 150,794 | 145,643 |
| Retained profits                      | 112,156 | 101,436 |
|                                       | -----   | -----   |
|                                       | 262,950 | 247,079 |
|                                       | =====   | =====   |

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act 1989 and is not distributable as cash dividends.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits as at 30 June 1999.

|     |  |          |          |
|-----|--|----------|----------|
| 18. | INTEREST INCOME                                      |          |          |
|     |  | 1999     | 1998     |
|     |  | RM'000   | RM'000   |
|     | Loans and advances                                   | 726,957  | 806,867  |
|     | Money at call and deposit placements                 |          |          |
|     | with financial institutions                          | 148,860  | 82,286   |
|     | Dealing securities                                   | 9,827    | -        |
|     | Investment securities                                | 56,864   | 65,838   |
|     | Others   | 8,108    | 7,315    |
|     |  | -----    | -----    |
|     |  | 950,616  | 962,306  |
|     | Amortisation of premium less accretion of discounts  | 8,658    | (1,344)  |
|     | Net interest suspended                               | (97,622) | (50,880) |
|     |  | -----    | -----    |
|     |  | 861,652  | 910,082  |
|     |  | =====    | =====    |
| 19. | INTEREST EXPENSES                                    |          |          |
|     |  | 1999     | 1998     |
|     |  | RM'000   | RM'000   |
|     | Deposits and placements of banks                     |          |          |
|     | and other financial institutions                     | 41,097   | 75,344   |
|     | Deposits from other customers                        | 601,001  | 611,128  |
|     | Others   | 13,913   | 13,146   |
|     |  | -----    | -----    |
|     |  | 656,011  | 699,618  |
|     |  | =====    | =====    |
| 20. | LOAN AND FINANCING LOSS AND PROVISION                |          |          |
|     |  | 1999     | 1998     |
|     |  | RM'000   | RM'000   |
|     | Provision for bad and doubtful debts and financing:- |          |          |
|     | - specific provision (net)                           | 125,749  | 77,418   |
|     | - general provision                                  | 9,100    | 21,955   |
|     |  | -----    | -----    |
|     |  | 134,849  | 99,373   |
|     | Bad debts and financing:-                            |          |          |
|     | - written off  | 14       | 12       |
|     | - recovered  | (221)    | (110)    |
|     |  | -----    | -----    |
|     |  | 134,642  | 99,275   |
|     |  | -----    | -----    |
|     | Provision on amounts recoverable from Danaharta:-    |          |          |
|     | - provision for value impairment during the year     | 254      | -        |
|     |  | -----    | -----    |
|     |  | 134,896  | 99,275   |
|     |  | =====    | =====    |

## 21. NON-INTEREST INCOME

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| <b>Fee income</b>   |                |                |
| Commission  | 2,599          | 2,034          |
| Service charges and fees  | 2,659          | 4,737          |
| Other fee income  | 11             | 8              |
|   | -----          | -----          |
|   | 5,269          | 6,779          |
|   | -----          | -----          |
| <b>Investment income</b>  |                |                |
| Net profit from dealing securities  | 27,246         | 1,011          |
| Gain/(Loss) from sale of investment securities  | 51             | (45)           |
| Gross dividends from:-  |                |                |
| Investment securities   | 337            | 399            |
| Write back of provision/(Provision) for<br>diminution in value of investment securities:- |                |                |
| Quoted shares   | 622            | (750)          |
|   | -----          | -----          |
|   | 28,256         | 615            |
|   | -----          | -----          |
| <b>Other income</b>   |                |                |
| Rental income   | 719            | 625            |
| Gain on disposal of fixed assets  | 30             | 54             |
| Other non-operating income  | 320            | 1,223          |
|   | -----          | -----          |
|   | 1,069          | 1,902          |
|   | -----          | -----          |
|   | 34,594         | 9,296          |
|   | =====          | =====          |

## 22. OVERHEAD EXPENSES

|                                     | 1999<br>RM'000 | 1998<br>RM'000 |
|-------------------------------------|----------------|----------------|
| Personnel costs                     | 43,727         | 52,903         |
| Establishment costs                 | 24,115         | 24,823         |
| Marketing expenses                  | 17,874         | 25,157         |
| Administration and general expenses | 5,616          | 7,857          |
|                                     | -----          | -----          |
|                                     | 91,332         | 110,740        |
|                                     | =====          | =====          |

The above expenditure includes the following statutory disclosures:-

|                                   | 1999<br>RM'000 | 1998<br>RM'000 |
|-----------------------------------|----------------|----------------|
| Directors' remuneration (Note 24) | 789            | 925            |
| Rental of premises                | 8,412          | 8,372          |
| Auditors' remuneration:-          |                |                |
| - current year                    |                |                |
| - statutory audit fees            | 80             | 75             |
| - other fees                      | -              | 24             |
| Depreciation of fixed assets      | 8,814          | 9,183          |
| Dealers' commission               | 14,281         | 20,563         |
| Staff retirement benefits         | 751            | 751            |
| Fixed assets written off          | 15             | 18             |
|                                   | =====          | =====          |

### 23. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

|                           | <u>Parent<br/>Company</u><br>RM'000 | <u>Subsidiary<br/>Companies</u><br>RM'000 | <u>Other related<br/>Companies</u><br>RM'000 |
|---------------------------|-------------------------------------|---|--|
| 1999                      |                                     |   |  |
| <b>Income</b>             |                                     |   |  |
| Rental                    | -                                   | -   | 98   |
| Interest on advances      | -                                   | -   | 1,631  |
| Commission                | -                                   | -   | 2,488  |
|                           | -----                               | -----                                     | -----  |
|                           | -                                   | -   | 4,217  |
|                           | =====                               | =====                                     | =====  |
| <b>Expenditure</b>        |                                     |   |  |
| Rental                    | -                                   | 30  | 4,233  |
| Interest on fixed deposit | -                                   | 74  | 45,869                                       |
|                           | -----                               | -----                                     | -----  |
|                           | -                                   | 104                                       | 50,102                                       |
|                           | =====                               | =====                                     | =====  |
| <b>Amount due from</b>    |                                     |   |  |
| Loans and advances        | -                                   | 1,827                                     | 4,193  |
|                           | =====                               | =====                                     | =====  |
| <b>Amount due to</b>      |                                     |   |  |
| Fixed deposits            | -                                   | 992                                       | 209,921                                      |
|                           | =====                               | =====                                     | =====  |

|                           | <u>Parent<br/>Company</u><br>RM'000 | <u>Subsidiary<br/>Companies</u><br>RM'000 | <u>Other related<br/>Companies</u><br>RM'000 |
|---------------------------|-------------------------------------|---|--|
| 1998                      |                                     |   |  |
| <b>Income</b>             |                                     |   |  |
| Rental                    | -                                   | -   | 115  |
| Interest on advances      | -                                   | -   | 10,702                                       |
| Commission                | -                                   | -   | 1,817  |
|                           | -----                               | -----                                     | -----  |
|                           | -                                   | -   | 12,634                                       |
|                           | =====                               | =====                                     | =====  |
| <b>Expenditure</b>        |                                     |   |  |
| Rental                    | -                                   | 30  | 4,450  |
| Interest on fixed deposit | -                                   | 64  | 13,735                                       |
|                           | -----                               | -----                                     | -----  |
|                           | -                                   | 94  | 18,185                                       |
|                           | =====                               | =====                                     | =====  |
| <b>Amount due from</b>    |                                     |   |  |
| Loans and advances        | -                                   | 1,822                                     | 77,095                                       |
|                           | =====                               | =====                                     | =====  |
| <b>Amount due to</b>      |                                     |   |  |
| Fixed deposits            | -                                   | 764                                       | 220,968                                      |
|                           | =====                               | =====                                     | =====  |

#### 24. DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all Directors charged to the profit for the year are as follows:-

|                    | 1999<br>RM'000 | 1998<br>RM'000 |
|--------------------|----------------|----------------|
| Fees               | 380            | 382            |
| Other remuneration | 409            | 543            |
|                    | -----          | -----          |
|                    | 789            | 925            |
|                    | =====          | =====          |

The estimated cash value of benefits-in-kind of Directors amounted to RM14,700 (1998: RM14,700).

25. TAXATION

|                                 | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------------|----------------|----------------|
| Malaysian income tax            | -              | 21,059         |
| Transfer from deferred taxation | _____          | _____          |
| - current year                  | -              | (4,578)        |
| - prior year                    | -              | (4,156)        |
|                                 | _____          | _____          |
|                                 | -              | (8,734)        |
|                                 | -----          | -----          |
|                                 | -              | 12,325         |
|                                 | =====          | =====          |

No provision for taxation is made as the income for the year is exempt from income tax.

The tax exempt income arising from current year operation available for future distribution as tax exempt dividend is estimated at approximately RM17,794,000.

26. DEFERRED TAXATION

|                                     | 1999<br>RM'000 | 1998<br>RM'000 |
|-------------------------------------|----------------|----------------|
| As at beginning of the year         | -              | 8,734          |
| Transfer to profit and loss account | _____          | _____          |
| - current year                      | -              | (4,578)        |
| - prior year                        | -              | (4,156)        |
|                                     | _____          | _____          |
|                                     | -              | (8,734)        |
|                                     | -----          | -----          |
| As at end of the year               | -              | -              |
|                                     | =====          | =====          |

The deferred taxation is in respect of the following timing differences:-

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Leasing                                       | (21,005)       | (4,359)        |
| Excess of capital allowance over depreciation | 3,001          | 3,339          |
| Interest in suspense                          | (23,755)       | (8,580)        |
| Others  | 7,050          | 4,808          |
|   | -----          | -----          |
|   | (34,709)       | (4,792)        |
|   | =====          | =====          |

Deferred tax benefits are not taken into account.

## 27. EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the Company's profit after taxation and zakat of RM20,605,000 (1998: RM3,878,000), and on the weighted average number of 263,000,000 (1998: 243,383,000) ordinary shares of RM1.00 each in issue during the financial year.

## 28. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The risk weighted exposure of the Company as at 30 June are as follows:-

|  | 1999                          |  | 1998                          |  |
|--|-------------------------------|--|-------------------------------|--|
|  | Principal<br>Amount<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Principal<br>Amount<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 |
| Direct credit substitutes                        | 1,898                         | 1,898                                    | 20,577                        | 20,577                                   |
| Housing loans sold directly<br>to Cagamas Berhad | 392,222                       | 392,222                                  | 460,299                       | 460,299                                  |
| Interest rates related contracts                 |                               |  |                               |  |
| - forward and future contracts                   | 40,000                        | 277                                      | 2,000                         | 2,000                                    |
| - interest rate swaps                            | 60,000                        | 2,212                                    | -                             | -  |
| Irrevocable commitment to<br>extend credits:-    |                               |  |                               |  |
| - within one year                                | 667,136                       | -  | 373,288                       | -  |
| - exceeding one year                             | 483,077                       | 241,539                                  | 489,286                       | 244,643                                  |
|  | -----                         | -----                                    | -----                         | -----                                    |
|  | 1,644,333                     | 638,148                                  | 1,345,450                     | 727,519                                  |
|  | =====                         | =====                                    | =====                         | =====                                    |

The Company is contingently liable in respect of housing loans sold to Cagamas Berhad, under the condition that the Company undertakes to administer the loans on behalf of Cagamas Berhad and to buy back as and when the loans are regarded as defective based on prudence concept.

The interest rate related contracts are subject to market risks.

#### Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 30 June 1999, the amount of contracts which were not hedged and, hence, exposed to market risk was RM25,000,000 (1998: RM2,000,000).

### 29. CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the accounts are as follows:-

|                                   | 1999<br>RM'000 | 1998<br>RM'000 |
|-----------------------------------|----------------|----------------|
| Authorised and contracted for     | 580            | 1,023          |
| Authorised but not contracted for | 3,351          | 8,968          |
|                                   | -----          | -----          |
|                                   | 3,931          | 9,991          |
|                                   | =====          | =====          |

### 30. HOLDING AND ULTIMATE HOLDING COMPANIES

The immediate holding company is Hong Leong Bank Berhad, a public listed company incorporated in Malaysia.

The Directors regard Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia, as the ultimate holding company.

### 31. CAPITAL ADEQUACY

The capital adequacy ratios of the Company are as follows:-

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| <u>Tier-1 capital</u>                         |                |                |
| Paid-up share capital                         | 263,000        | 263,000        |
| Reserves                                      | 262,950        | 247,079        |
|   | -----          | -----          |
| Total Tier-1 capital                          | 525,950        | 510,079        |
|   | -----          | -----          |
| <u>Tier-II capital</u>                        |                |                |
| General provisions for bad and doubtful debts | 103,932        | 92,998         |
|   | -----          | -----          |
| Total capital                                 | 629,882        | 603,077        |
| Less:   |                |                |
| Investments in subsidiaries                   | (320)          | (320)          |
|   | -----          | -----          |
| Capital base                                  | 629,562        | 602,757        |
|   | =====          | =====          |

Breakdown of risk-weighted assets in the various categories of risk-weights:-

|                            | 1999<br>RM'000 | 1998<br>RM'000 |
|----------------------------|----------------|----------------|
| 0%                         | 547,736        | 790,788        |
| 10%                        | 320,000        | 165,375        |
| 20%                        | 2,984,315      | 2,010,013      |
| 50%                        | 1,002,012      | 998,847        |
| 100%                       | 4,906,673      | 4,797,512      |
|                            | -----          | -----          |
|                            | 9,760,736      | 8,762,535      |
|                            | =====          | =====          |
| Total risk weighted assets | 6,036,542      | 5,715,476      |
|                            | =====          | =====          |

### CAPITAL RATIOS

|                             |        |        |
|-----------------------------|--------|--------|
| Core capital ratio          | 8.71%  | 8.92%  |
| Risk-weighted capital ratio | 10.42% | 10.54% |

### 32. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

- (i) The Company BNM had been granted approval by Bank Negara Malaysia (“BNM”) to takeover the industrial hire purchase, leasing and factoring loans of Hong Leong Leasing Sdn Bhd for a cash consideration equal to that of the audited net book value of these assets; and to takeover the industrial hire purchase and leasing loans of HL Leasing Sdn Bhd at the net book value of these assets.
- (ii) The Company had decided not to proceed with the proposed acquisition of 100% equity interest in Kewangan Bersatu Berhad and Bolton Finance Berhad.

### 33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

## 34. THE OPERATION OF SPI

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 1999

|  | Note | 1999<br>RM'000 | 1998<br>RM'000 |
|--|------|----------------|----------------|
| <b>ASSETS</b>  |      |                |                |
| Cash and short-term funds  | 1    | 46,991         | 4,186          |
| Investment securities  | 2    | 235,676        | 104,473        |
| Loans, advances and financing  | 3    | 116,807        | 66,332         |
| Other assets   |      | 9,524          | 10,566         |
| Statutory deposit with Bank Negara Malaysia                          | 4    | 13,727         | -              |
| Fixed assets   | 5    | 272            | 311            |
|  |      | -----          | -----          |
| <b>TOTAL ASSETS</b>  |      | <b>422,997</b> | <b>185,868</b> |
|  |      | =====          | =====          |
| <b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>                         |      |                |                |
| Deposits from customers  | 6    | 360,011        | 132,441        |
| Deposits and placements of banks<br>and other financial institutions | 7    | 40,000         | 26,915         |
| Other liabilities  | 8    | 7,763          | 19,237         |
|  |      | -----          | -----          |
| <b>TOTAL LIABILITIES</b>   |      | <b>407,774</b> | <b>178,593</b> |
|  |      | -----          | -----          |
| <b>ISLAMIC BANKING FUND</b>  | 9    | <b>15,223</b>  | <b>7,275</b>   |
|  |      | -----          | -----          |
| <b>TOTAL LIABILITIES AND ISLAMIC<br/>BANKING FUNDS</b>               |      | <b>422,997</b> | <b>185,868</b> |
|  |      | =====          | =====          |

The accompanying Notes form an integral part of the Financial Statements.

THE OPERATION OF SPI

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDED 30 JUNE 1999

|  | Note | 1999<br>RM'000  | 1998<br>RM'000 |
|--|------|-----------------|----------------|
| Income                                 | 10   | 7,826           | 6,471          |
| Loan, and financing loss and provision | 11   | (986)           | (923)          |
| Net income                             |      | -----<br>6,840  | -----<br>5,548 |
| Overhead expenses                      | 12   | (864)           | (904)          |
| Profit before taxation and zakat       |      | -----<br>5,976  | -----<br>4,644 |
| Taxation                               |      | -               | (1,569)        |
| Zakat                                  |      | (28)            | (13)           |
| Profit after taxation and zakat        |      | -----<br>5,948  | -----<br>3,062 |
| Retained profits brought forward       |      | -----<br>4,275  | -----<br>1,213 |
| Retained profits carried forward       |      | =====<br>10,223 | =====<br>4,275 |

The accompanying Notes form an integral part of the Financial Statements.

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

NOTES TO THE ACCOUNTS

THE OPERATION OF SPI

(1) CASH AND SHORT-TERM FUNDS

|   | 1999<br>RM'000 | 1998<br>RM'000 |
|---|----------------|----------------|
| Cash and balances with banks<br>and other financial institutions  | 14,911         | 4,186          |
| Money at call and deposit placements<br>maturing within one month | 32,080         | -              |
|   | -----          | -----          |
|   | 46,991         | 4,186          |
|   | =====          | =====          |

(2) INVESTMENT SECURITIES

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Money market instruments:-                   |                |                |
| Malaysian Government investment certificates | 13,204         | 60             |
| Islamic bankers' acceptances                 | 222,472        | 104,413        |
|  | -----          | -----          |
| Total investment securities                  | 235,676        | 104,473        |
|  | =====          | =====          |

The maturity structure of money market instruments held for investment are as follows:-

|                          | 1999<br>RM'000 | 1998<br>RM'000 |
|--------------------------|----------------|----------------|
| Maturing within one year | 222,472        | 104,473        |
| One year to three years  | 13,204         | -              |
|                          | -----          | -----          |
|                          | 235,676        | 104,473        |
|                          | =====          | =====          |

(3) LOANS, ADVANCES AND FINANCING

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Housing loans                                      | 2,919          | -              |
| Islamic hire purchase                              | 149,429        | 85,383         |
|  | -----          | -----          |
|  | 152,348        | 85,383         |
| Unearned income                                    | (33,118)       | (17,862)       |
|  | -----          | -----          |
| Gross loans, advances and financing                | 119,230        | 67,521         |
| Provision for bad and doubtful debts and financing |                |                |
| - general  | (2,081)        | (1,095)        |
| - specific   | (12)           | (12)           |
| Income-in-suspense                                 | (330)          | (82)           |
|  | -----          | -----          |
| Net loans, advances and financing                  | 116,807        | 66,332         |
|  | =====          | =====          |

(i) Loans, advances and financing analysed by concepts are as follows:-

|                          | 1999<br>RM'000 | 1998<br>RM'000 |
|--------------------------|----------------|----------------|
| Al-Bai Bithuman Ajil     | 1,316          | -              |
| Al-Ijarah Thumma Al-Bai' | 117,914        | 67,521         |
|                          | -----          | -----          |
|                          | 119,230        | 67,521         |
|                          | =====          | =====          |

(ii) The maturity structure of loans, advances and financing are as follows:-

|                           | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------|----------------|----------------|
| Maturing within one year  | 1,840          | 602            |
| One year to three years   | 26,950         | 8,157          |
| Three years to five years | 85,116         | 50,213         |
| Over five years           | 5,324          | 8,549          |
|                           | -----          | -----          |
|                           | 119,230        | 67,521         |
|                           | =====          | =====          |

(iii) Loans, advances and financing according to economic sector are as follows:-

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Purchase of landed property (of which residential) | 1,303          | -              |
| General commerce                                   | 151            | -              |
| Transport, storage and communication               | 132            | 194            |
| Purchase of transport vehicles                     | 106,690        | 67,301         |
| Consumption credit                                 | 39             | 4              |
| Others   | 10,915         | 22             |
|  | <u>119,230</u> | <u>67,521</u>  |

(iv) Movements in the non-performing loans and financing (including income receivable) are as follows:-

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Balance as at 1 July   | 1,752          | -              |
| Non-performing during the year (gross)   | 1,978          | 1,752          |
| Recoveries   | (100)          | -              |
| Reclassified as performing   | (300)          | -              |
|  | <u>3,330</u>   | <u>1,752</u>   |
| Balance as at 30 June  | <u>3,330</u>   | <u>1,752</u>   |
| As % of gross loans, advances and financing less specific provision and income-in-suspense | <u>2.5%</u>    | <u>2.5%</u>    |

- (v) Movements in the provision for bad and doubtful debts and financing and income-in-suspense accounts are as follows:-

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| <u>General Provision</u>   |                |                |
| Balance as at 1 July   | 1,095          | 184            |
| Provision made during the year   | 986            | 911            |
|  | -----          | -----          |
| Balance as at 30 June  | 2,081          | 1,095          |
|  | =====          | =====          |
| As % of gross loans, advances and financing less specific provision and income-in-suspense |                |                |
|  | 1.8%           | 1.6%           |
|  | =====          | =====          |
| <u>Specific Provision</u>  |                |                |
| Balance as at 1 July   | 12             | -              |
| Provision made during the year   | -              | 12             |
|  | -----          | -----          |
| Balance as at 30 June  | 12             | 12             |
|  | =====          | =====          |
| <u>Interest-in-Suspense</u>  |                |                |
| Balance as at 1 July   | 82             | -              |
| Provision made during the year   | 297            | 82             |
| Amount written back in respect of recoveries   | (49)           | -              |
|  | -----          | -----          |
| Balance as at 30 June  | 330            | 82             |
|  | =====          | =====          |

(4) STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Ordinance 1958, the amount of which is determined as set percentages of total eligible liabilities.

(5) FIXED ASSETS

|   | Office<br>Equipment<br>& Furniture<br>RM | Computer<br>Equipment<br>& Softwares<br>RM | Office<br>Renovation<br>RM | Total<br>RM |
|---|--|--|----------------------------|-------------|
| <b>Cost</b>   |  |  |                            |             |
| At 1-7-1998   | 33                                       | 139  | 158                        | 330         |
| Additions   | 4  | -  | 5                          | 9           |
|   | -----                                    | -----                                      | -----                      | -----       |
| At 30-6-1999  | 37                                       | 139  | 163                        | 339         |
|   | =====                                    | =====                                      | =====                      | =====       |
| <b>Accumulated<br/>Depreciation</b>                         |  |  |                            |             |
| At 1-7-1998   | 1  | 10   | 8                          | 19          |
| Charge for the year   | 4  | 28   | 16                         | 48          |
|   | -----                                    | -----                                      | -----                      | -----       |
| At 30-6-1999  | 5  | 38   | 24                         | 67          |
|   | =====                                    | =====                                      | =====                      | =====       |
| <b>Net Book Value</b>                                       |  |  |                            |             |
| At 30-6-1999  | 32                                       | 101  | 139                        | 272         |
|   | =====                                    | =====                                      | =====                      | =====       |
| <b>Net Book Value</b>                                       |  |  |                            |             |
| At 30-6-1998  | 32                                       | 129  | 150                        | 311         |
|   | =====                                    | =====                                      | =====                      | =====       |
| <b>Depreciation<br/>charge for year<br/>ended 30-6-1998</b> | 1  | 10   | 8                          | 19          |
|   | =====                                    | =====                                      | =====                      | =====       |

(6) DEPOSITS FROM CUSTOMERS

Types

|                             | 1999<br>RM'000 | 1998<br>RM'000 |
|-----------------------------|----------------|----------------|
| Savings deposits            | 90,862         | 41,381         |
| General Investment deposits | 269,149        | 91,060         |
|                             | -----          | -----          |
| Total deposits              | 360,011        | 132,441        |
|                             | =====          | =====          |

(a) The maturity structure of investment deposits are as follows:-

|                           | 1999<br>RM'000 | 1998<br>RM'000 |
|---------------------------|----------------|----------------|
| Due within six months     | 249,517        | 85,478         |
| Six months to one year    | 18,950         | 4,482          |
| One year to three years   | 612            | 1,075          |
| Three years to five years | 70             | 25             |
|                           | -----          | -----          |
|                           | 269,149        | 91,060         |
|                           | =====          | =====          |

(b) The deposits are sourced from the following customers:-

|                      | 1999<br>RM'000 | 1998<br>RM'000 |
|----------------------|----------------|----------------|
| Business enterprises | 17,457         | 7,995          |
| Individuals          | 240,178        | 54,871         |
| Others               | 102,376        | 69,575         |
|                      | -----          | -----          |
|                      | 360,011        | 132,441        |
|                      | =====          | =====          |

(7) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

|                | 1999<br>RM'000 | 1998<br>RM'000 |
|----------------|----------------|----------------|
| Licensed banks | 40,000         | 26,915         |
|                | =====          | =====          |

|      |  |                |                |
|------|--|----------------|----------------|
| (8)  | OTHER LIABILITIES                                    | 1999<br>RM'000 | 1998<br>RM'000 |
|      | Taxation   | 1,569          | 1,569          |
|      | Zakat  | 28             | 13             |
|      | Other liabilities                                    | 6,166          | 17,655         |
|      |  | -----          | -----          |
|      |  | 7,763          | 19,237         |
|      |  | =====          | =====          |
| (9)  | ISLAMIC BANKING FUNDS (IBF)                          | 1999<br>RM'000 | 1998<br>RM'000 |
|      | Funds allocated from Head Office                     | 5,000          | 3,000          |
|      | Retained profits                                     | 10,223         | 4,275          |
|      |  | -----          | -----          |
|      |  | 15,223         | 7,275          |
|      |  | =====          | =====          |
| (10) | INCOME FROM SPI OPERATION                            | 1999<br>RM'000 | 1998<br>RM'000 |
|      | Income derived from investment of<br>depositors fund | 23,887         | 15,945         |
|      | Income attributable to depositors:-                  |                |                |
|      | Other customer                                       | (16,171)       | (9,547)        |
|      |  | -----          | -----          |
|      | Income attributable to Company                       | 7,716          | 6,398          |
|      | Other SPI Income                                     | 110            | 73             |
|      |  | -----          | -----          |
|      |  | 7,826          | 6,471          |
|      |  | =====          | =====          |

Details of the income derived from investment of depositors and funds allocated from Head Office are as follows:-

|   | Depositors'<br>Funds<br>RM'000 | IBF<br>RM'000 |
|---|--------------------------------|---------------|
| 1999                                    |                                |               |
| Income from financing                   | 20,866                         | 794           |
| Investment income:                      |                                |               |
| Net profit from dealing securities      | 1,498                          | 57            |
| Gain from sale of investment securities | 647                            | 25            |
|   | -----                          | -----         |
|   | 23,011                         | 876           |
| Other income:                           |                                |               |
| Other non-operating income              | 106                            | 4             |
|   | -----                          | -----         |
|   | 23,117                         | 880           |
|   | =====                          | =====         |

|                                    | Depositors'<br>Funds<br>RM'000 | IBF<br>RM'000 |
|------------------------------------|--------------------------------|---------------|
| 1998                               |                                |               |
| Income from financing              | 6,621                          | 363           |
| Investment income:                 |                                |               |
| Net profit from dealing securities | 8,495                          | 466           |
|                                    | -----                          | -----         |
|                                    | 15,116                         | 829           |
| Other income:                      |                                |               |
| Other non-operating income         | 69                             | 4             |
|                                    | -----                          | -----         |
|                                    | 15,185                         | 833           |
|                                    | =====                          | =====         |

(11) LOAN AND FINANCING LOSS AND PROVISION

|  | 1999<br>RM'000 | 1998<br>RM'000 |
|--|----------------|----------------|
| Provision for bad and doubtful debts and financing:- |                |                |
| - specific provision (net)                           | -              | 12             |
| - general provision                                  | 986            | 911            |
|  | -----          | -----          |
|  | 986            | 923            |
|  | =====          | =====          |

(12) OVERHEAD EXPENSES

|                                     | 1999<br>RM'000 | 1998<br>RM'000 |
|-------------------------------------|----------------|----------------|
| Personnel costs                     | 421            | 456            |
| Establishment costs                 | 189            | 165            |
| Marketing expenses                  | 193            | 192            |
| Administration and general expenses | 61             | 91             |
|                                     | -----          | -----          |
|                                     | 864            | 904            |
|                                     | =====          | =====          |

REPORT OF THE AUDITORS TO THE MEMBERS OF  
HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

We have audited the accounts of HONG LEONG FINANCE BERHAD, comprising of the balance sheet of the Company and the notes to the accounts as at 30 June 1999 and of the profit and loss accounts of the Company and the cash flow statement of the Company for the year ended on that date (the financial statements).

The preparation of the financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanation, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatements. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements which have been prepared under the historical cost convention are properly drawn up in accordance with the provisions of the Companies Act, 1965, Bank Malaysia Guidelines and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the accounts of the Company; and
  - (ii) the state of affairs of the Company at 30 June 1999 and of the results of the operations of the Company and of the cash flows of the Company for the year ended on that date; and
  
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

LING KAM HOONG & CO  
AF: 0106  
PUBLIC ACCOUNTANTS, MALAYSIA

LING KAM HOONG  
161/5/00 (J/PH)

Kuala Lumpur

Date